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FISCAL IMPACT STATEMENT

LS 6509

BILL NUMBER: SB 256

NOTE PREPARED: Dec 27, 2005

BILL AMENDED:

SUBJECT: Credit for Excessive Residential Property Taxes.

FIRST AUTHOR: Sen. Landske

BILL STATUS: As Introduced

FIRST SPONSOR:

FUNDS AFFECTED: **GENERAL**
 DEDICATED
 FEDERAL

IMPACT: Local

Summary of Legislation: The bill provides the following with respect to the credit for excessive residential property taxes. The bill:

- (1) Eliminates the county option as to whether to apply the credit.
- (2) Provides that the credit applies only to homesteads.
- (3) Eliminates the authority for a county to borrow to cover revenue reductions that result from application of the credit and to levy property taxes to repay the loans.
- (4) Requires the county auditor to notify each political subdivision of those reductions.
- (5) Allows a county fiscal body to adopt an ordinance before 2006 tax statements are issued, authorizing the credit for taxes payable in 2006 under the law as it applied before the other amendments under this act.

Effective Date: Upon passage.

Explanation of State Expenditures:

Explanation of State Revenues:

Explanation of Local Expenditures:

Explanation of Local Revenues: *2007 and Later Credits:* Under current law, counties may provide credits against the property tax liability of residential property if the net property tax on the property, after all other credits are applied, exceeds 2% of the property's gross assessed value. The credit equals the amount of tax that

exceeds the 2% threshold. Residential property may include any combination of homesteads, apartment complexes, and other residential rental property at the county's discretion. No application is required to receive the credit. The county auditor must identify the eligible property and apply the credit.

Under this bill beginning with taxes paid in 2007, the credit would apply only to homesteads and would be mandatory rather than optional for any county with homesteads that have net taxes exceeding 2% of gross AV.

Currently, counties are permitted to borrow money for a term of up to 5 years to pay for the credits. If the county borrows money in order to fund the credit, the civil taxing units and school corporations in the county are required to repay the loan and must impose a property tax levy to repay the debt. This levy is subject to the unit's maximum permissible levy limit and cannot be the basis for obtaining an excessive levy. If the property tax credits are granted, but not funded through a loan or other revenue source, the credits effectively reduce the tax collections that are distributed to local civil taxing units and school corporations with no replacement. So, if the county does not fund the credits, the entire cost of the credit is a local revenue reduction in the year granted.

Under this bill beginning with taxes paid in 2007, counties would not be permitted to borrow money to fund the credit. The credits would reduce revenues for local civil taxing units and school corporations in affected counties. A previous analysis of 2003 data indicated that there were two counties, Lake and St. Joseph, where the credit for homesteads would be of any real significance. The actual 2005 Lake County credit (applied only to homesteads) amounted to \$13.4 M and the potential St. Joseph County credit (for homesteads only) is estimated at \$1.3 M.

2006 Credit: Currently, a county that wishes to provide local property tax credits for residential property must adopt an ordinance allowing the credit by June 30th of the year before the year in which the taxes are payable. This bill would allow counties to adopt an ordinance to allow the credit against taxes paid in 2006 at anytime before the 2006 tax bills are issued. The fiscal impact of this provision is fully dependant on local action.

State Agencies Affected: Department of Local Government Finance.

Local Agencies Affected: Counties; Civil taxing units and school corporations in counties where the credit applies.

Information Sources: Lake County 2005 abstract; County auditor property tax data.

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